

# An Overview of the Governor's Revenue Proposals

(SB 5129 & SB 5130)

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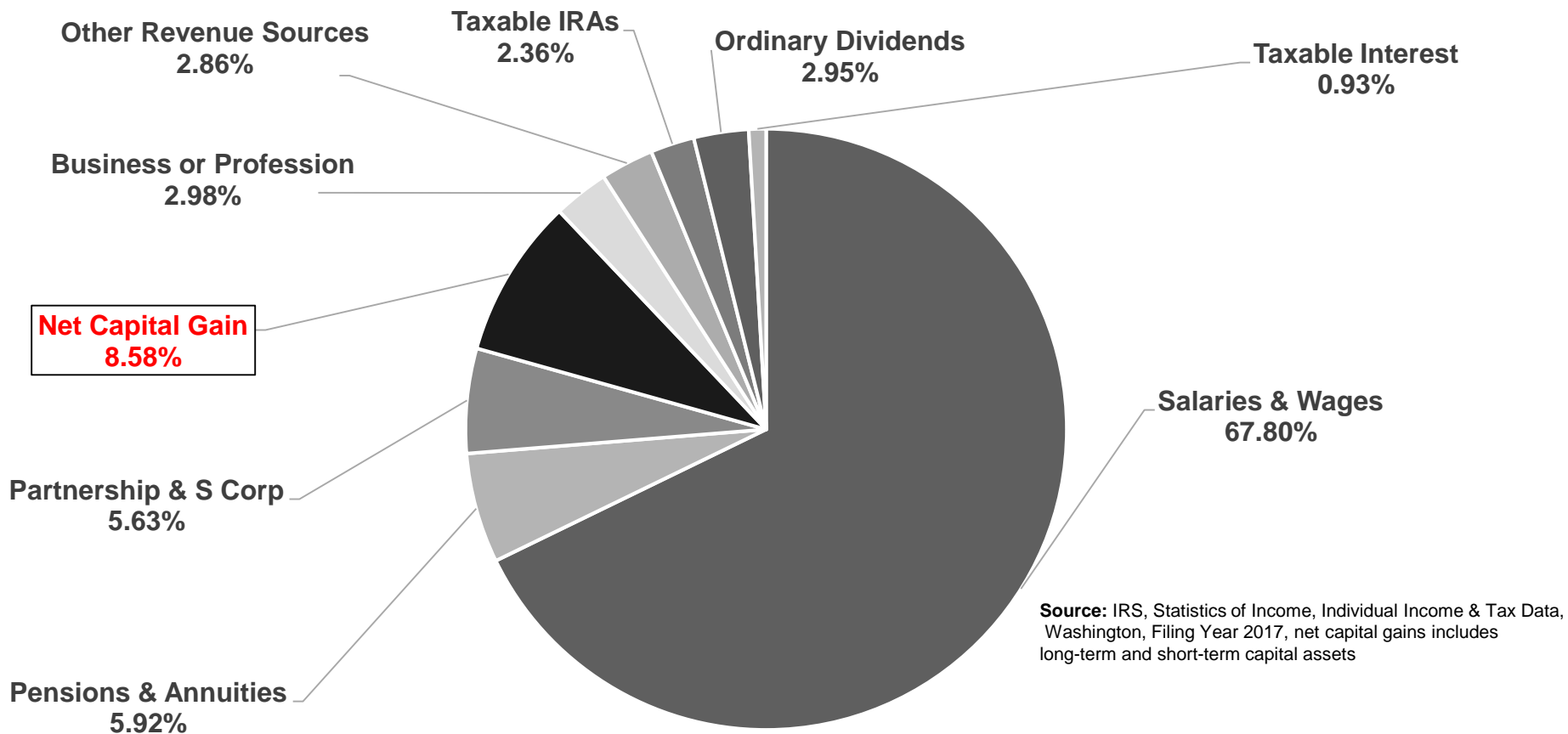
**Ways & Means Committee**

# Capital gains are a subset of revenue reported for federal tax purposes.

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- **General Description:** Capital gains generally represent sales of capital assets where the selling price exceeds the purchase price
- **Common examples:** Stocks, bonds, real estate, mutual funds, business interests
- **Long-term versus short-term capital gains:**  
Determined based on how long the property is held
- **Favorable tax treatment under federal law for long term capital gains:** 37% top marginal rate for ordinary income versus 20% for long-term capital gains

In Washington state, capital gains accounted for about 9% of total income reported on federal individual income tax returns.

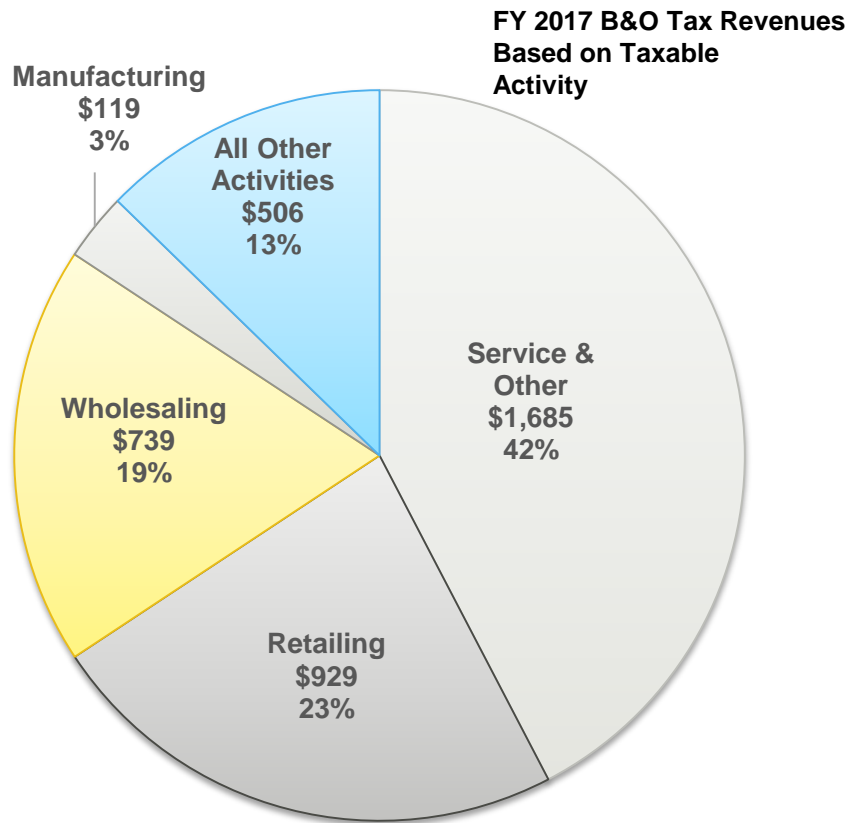


# The Governor's capital gains tax proposal would take effect January 1, 2020.

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- **Imposes a 9% tax rate on long-term capital gains**
- **Tax returns would be submitted beginning in calendar year 2021**
- **\$25,000/\$50,000 threshold exclusions for single and joint filers**
- **Provides a number of exemptions, including:**
  - ❖ Residences
  - ❖ Certain depreciable property used in a trade or business
  - ❖ Cattle, horses, and breeding livestock
  - ❖ Timber, timberlands, and agricultural lands
- **4-Year Fiscal Impact: \$3.2 billion**

# Business and occupation (B&O) taxes are imposed based on the specific business activity of the taxpayer.



**General description:** The state B&O tax is a gross receipts tax, i.e. businesses pay tax on the gross revenues of the business with no deduction for expenses. The tax has been imposed since the 1930s.

**Tax rates:** The B&O tax has three default rates and a number of other (mostly) preferential rates. Most businesses are subject to tax under one of the following three rates:

- Manufacturing/wholesaling – 0.484%
- Retailing – 0.471%
- Service - 1.5%

**Tax revenues:** Most B&O tax collections are deposited in the state General Fund. In the 2017-19 biennium, the B&O tax is estimated to generate about \$8.5 billion, representing about 20% of state General Fund revenues.

Notes:

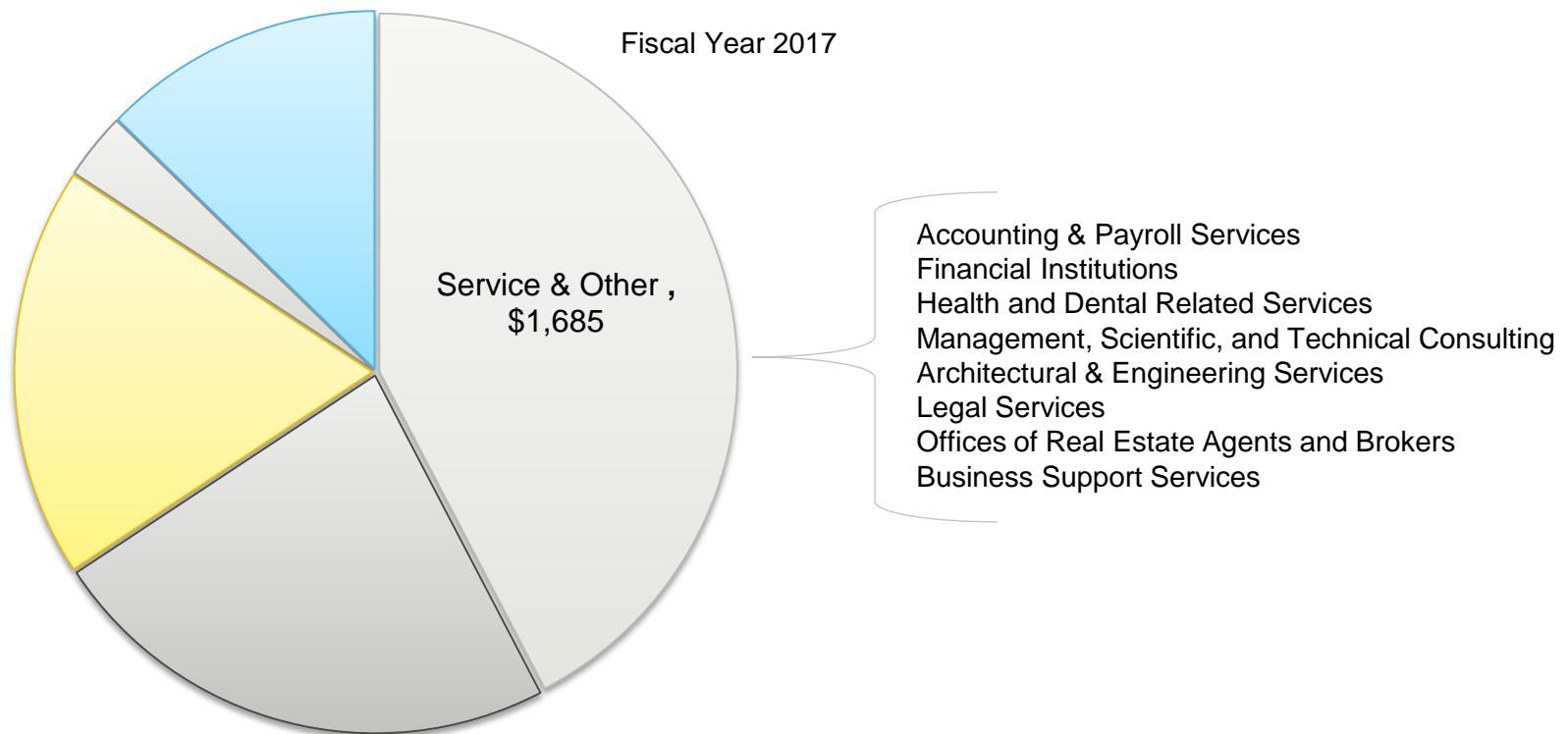
- \$ in millions
- Total FY 17 B&O tax collections: \$3.8 billion

The Governor's B&O tax proposal would impose an additional 1% tax on service-related activities.

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- **Effective date:** July 1, 2019
- **Prior legislation:** Similar to 2010 legislation
- **Exemptions:** Hospitals & scientific R&D services
- **Four-Year Fiscal Impact:** \$5.5 billion
- **Deposit of revenues:** 80% to the Education Legacy Trust Account & 20% to the General Fund

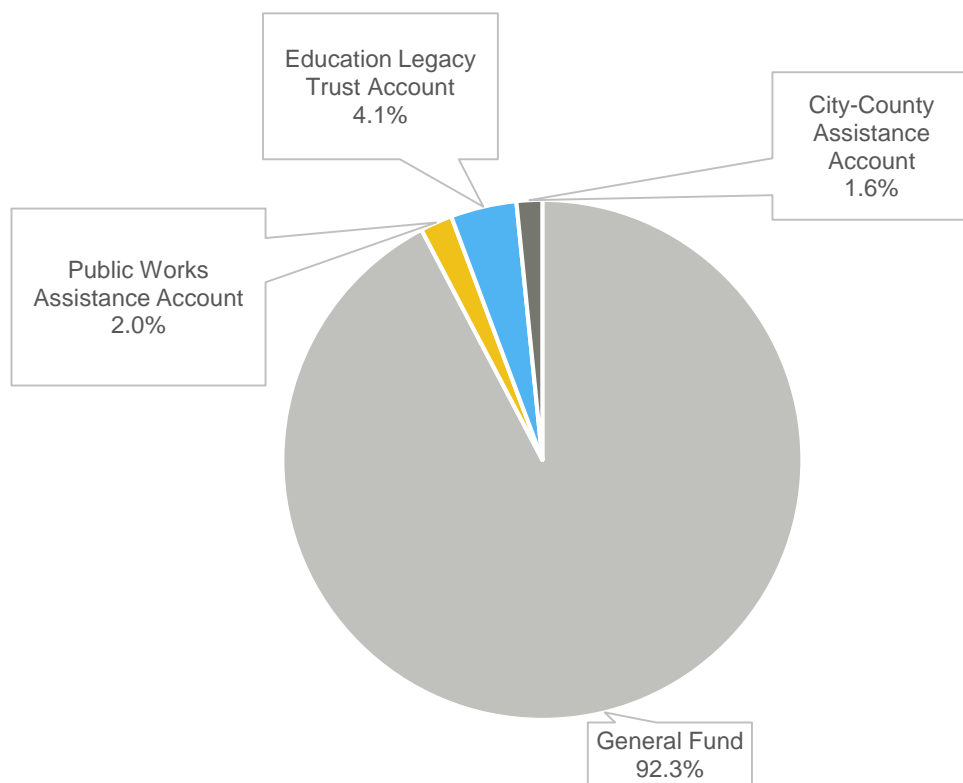
# Examples of business activities that would likely be subject to the B&O surcharge.



## Notes:

- \$ in millions
- Total FY 17 B&O tax collections: \$3.8 billion

# Real estate excise tax (REET) is collected on the sale of real estate



## Notes:

- Total FY 17 REET collections: \$1.1 billion

- **General description:** Individuals, corporations, and other entities owe real estate excise tax on their sales of real property, unless the sale qualifies for an exemption from the tax. Taxable sales include transfers of ownership in real property and in controlling interests in entities that own real property in Washington.
- **Tax rates:** The state tax rate is 1.28 percent. Local jurisdictions may add additional local rates. The combined state and local rate in most areas is 1.78 percent.
- **Tax revenues:** Most REET collections are deposited in the state General Fund. In the 2017-19 biennium, the REET is estimated to generate about \$2.1 billion, representing about 4.7% of state General Fund revenues.



# Governor's proposal imposes graduated REET rates ranging from 0.75% to 2.5%

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The proposal creates graduated state REET rates of:

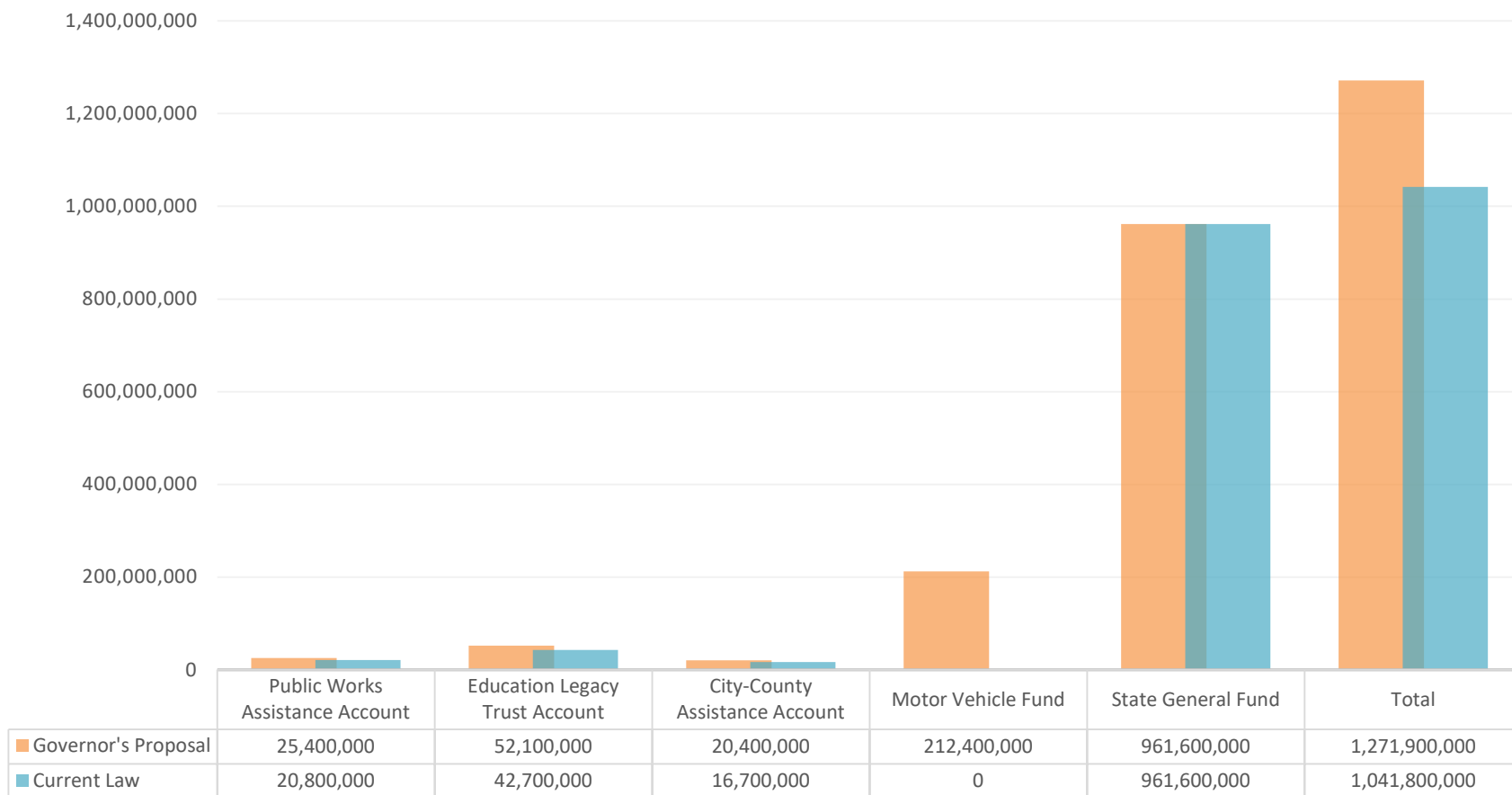
- Three-quarters percent (0.75) if the selling price is less than \$250,000
- 1.28% if the selling price is at least \$250,000 but less than \$1 million
- 2% if the selling price is at least \$1 million but less than \$5 million
- 2.5% if the selling price is \$5 million or more

16.7% of REET revenues will be transferred to the motor vehicle account.

REET proposal is effective July 1, 2019.

Moves up increase in certain vehicle weight fees, effective August 1, 2019.

# The bulk of additional REET revenues would be distributed to the motor vehicle account



## Notes:

- Estimated FY 2021 REET collections
- Effective July 1, 2023, 6.1% of collections are distributed to the Public Works with no distribution to Education Legacy